

VALASSIS NSA

Docket No. MC2012-14

Docket No. R2012-8

RESPONSE OF THE CHARLOTTE OBSERVER PUBLISHING COMPANY TO NOTICE OF  
INQUIRY NO. 1

Located in Charlotte, North Carolina, The Charlotte Observer Publishing Company, ("Observer"), is the largest daily newspaper in the Carolinas. For 125 years, we have served the Piedmont region and reach over 1 million readers every week.

The Observer submits this declaration in support of the Newspaper Association of America's ("NAA") Response to Notice of Inquiry No. 1.

The Observer wants to formally reiterate our opposition to the proposed Negotiated Service Agreement ("NSA") between the United States Postal Service ("USPS") and Valassis Direct Mail, Inc. ("Valassis"), and further illustrate the irreparable harm the agreement could have on The Observer, the USPS and the communities we collectively serve.

Valassis is one of The Observer's largest competitors for free standing inserts. Valassis also serves as the agency which places the orders for many of our major accounts. Granting any preferential rate structure further erodes the competitive landscape. Valassis already knows our rates and this puts them in an unfair competitive position. The proposed discounted rate to Valassis is not only unfair, it could upend the competitive landscape in our markets in favor of Valassis, potentially dealing The Observer's operations a serious blow, and impacting our ability to serve our communities with high quality news and information.

## Response To Questions

1. For fiscal year 2010, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented 23% of The Observer's total advertising revenues (including ROP, classified, and digital advertising), 29% of our total print advertising revenue, and 75% of our total preprint advertising revenue.
2. For fiscal year 2011, we estimate that advertising inserts for durable and semi-durable goods from national retailers represented 24% of Charlotte Observer's total advertising revenues (including ROP, classified, and digital advertising), 32% of our total print advertising revenue, and 74% of our total preprint advertising revenue.



3. The Observer distributes Total Market Coverage ("TMC") packages to non-newspaper subscribers through the mail and carrier delivery midweek. While TMCs may contain advertising inserts from national retailers and for durable and semi-durable goods, most of these types of midweek advertising inserts represent local grocery stores, fast food outlets and other retailers with local operations. Most of the ad inserts from national retailers and for durable and semi-durable goods are distributed within The Observer's Sunday newspaper editions or through our carrier-delivered Community Papers targeting non-newspaper subscribers. The Sunday newspaper is very important to The Observer's operations. On average, Sunday newspaper advertising drives nearly 39% of Charlotte Observer's advertising revenues. The Sunday paper creates a significant portion of our profits in addition to being highly valued by our readers and advertisers. The proposed NSA with Valassis, however, could lure many of these durable and semi-durable goods advertisers from our Sunday newspapers to Valassis. We believe this would diminish a significant portion of The Observer's pre-print advertising revenues. As a result, it would cause us to cut costs in response to obtaining savings to remain competitive, including the possibility of scaling back our news coverage and potentially pulling our midweek TMC package from the mail.


4. For fiscal year 2010, The Observer paid the USPS approximately \$2.1 million to deliver our TMC and direct mail products. The Observer is unable to provide the Postal Regulatory Commission cumulative weight or individual pieces mailed since The Observer's systems do not track this measurement.

5. In 2011, we spent slightly \$2.3 million in postage on our TMC product mailing 12 million pieces. In 2012 we anticipate postage to be close to \$2.6 million with 15.5 million pieces mailed.

6. The Observer believes that the USPS could lose a significant portion of the approximately \$2.6 million The Observer expects to spend on postage in the next year if the Valassis NSA is approved.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 27, 2012.



Ann Caulkins

President and Publisher

The Charlotte Observer Publishing Company